



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Sequim

Clallam County

For the period January 1, 2013 through December 31, 2013

Published December 29, 2014

Report No. 1013244





Washington State Auditor
Troy Kelley

December 29, 2014

Council
City of Sequim
Sequim, Washington

Report on Financial Statements

Please find attached our report on the City of Sequim's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Sequim
Clallam County
January 1, 2013 through December 31, 2013**

Council
City of Sequim
Sequim, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Sequim, Clallam County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 17, 2014.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 17, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Sequim Clallam County January 1, 2013 through December 31, 2013

Council
City of Sequim
Sequim, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Sequim, Clallam County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Sequim has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Sequim, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Sequim, as of December 31, 2013, or the

changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

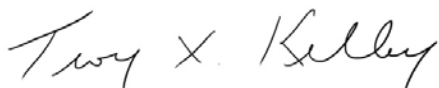
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 17, 2014

FINANCIAL SECTION

**City of Sequim
Clallam County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	111 Street Restricted	115 Lodging Tax Hotel/Motel
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	843,633	0	378,208	0
30880	Beg Fund Bal-Unreserved	13,872,527	2,509,882	19,373	264,916
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	5,707,518	5,066,321	0	228,773
320	Licenses & Permits	187,919	187,919	0	0
330	Intergovernmental Revenues	924,359	337,814	167,735	0
340	Charges for Goods and Services	8,448,995	2,506,698	694,330	3,549
350	Fines & Penalties	68,249	68,249	0	0
360	Miscellaneous Revenues	581,293	155,187	141,363	14,598
Total Operating Revenues:		15,918,333	8,322,188	1,003,428	246,920
Operating Expenditures					
510	General Government	2,772,670	2,742,288	0	0
520	Public Safety	3,230,068	3,210,090	0	0
530	Utilities	4,969,632	777,770	8	0
540	Transportation	1,134,591	818,651	315,940	0
550	Natural and Economic Environment	407,124	215,346	0	191,778
560	Social Services	71,100	71,100	0	0
570	Culture And Recreation	255,001	217,633	0	26,106
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		12,840,186	8,052,878	315,948	217,884
Net Operating Increase (Decrease):		3,078,147	269,310	687,480	29,036
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	504,938	41,018	0	3,824
391-393	Debt Proceeds	10,689,675	0	0	0
397	Transfers-In	1,709,864	173,638	567,784	0
Total Nonoperating Revenues:		12,904,477	214,656	567,784	3,824
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	225,940	11,273	0	2,639
591-593	Debt Service	827,222	11,372	0	0
594-595	Capital Expenditures	3,023,084	182,362	1,074,081	42,207
597	Transfers-Out	1,706,768	315,638	0	25,000
Total Nonoperating Expenditures:		5,783,014	520,645	1,074,081	69,846
Increase (Decrease) in Cash and Investments		10,199,610	-36,679	181,183	-36,986
Ending Cash and Investments					
50810	End Fund Bal-Reserved	11,282,750	0	378,208	0
50880	End Fund Balance-Unreserved	13,633,012	2,473,205	200,559	227,929

The accompanying notes are an integral part of this Statement.

BARS Code		120 Police Restricted - NonRoutine	121 Police Asset Seizure	140 Parks Restricted	150 Real Estate Excise Tax 2
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	71,539	0	0	0
30880	Beg Fund Bal-Unreserved	0	19,837	194,561	41,477
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	183,346	0	0	103,965
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	15,761	0	0	0
340	Charges for Goods and Services	360	0	58,325	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	4,114	368	33,516	1,310
Total Operating Revenues:		203,581	368	91,841	105,275
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	19,978	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	5,286	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		19,978		5,286	
Net Operating Increase (Decrease):		183,603	368	86,555	105,275
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	3,096	15,000	0
Total Nonoperating Revenues:			3,096	15,000	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	82,368	0
594-595	Capital Expenditures	0	0	14,111	0
597	Transfers-Out	183,346	0	0	40,000
Total Nonoperating Expenditures:		183,346		96,479	40,000
Increase (Decrease) in Cash and Investments		257	3,464	5,076	65,275
Ending Cash and Investments					
50810	End Fund Bal-Reserved	61,608	0	0	0
50880	End Fund Balance-Unreserved	10,189	23,301	199,633	106,752

The accompanying notes are an integral part of this Statement.

BARS Code		160 Gifting & Donations	300 Bond Proceeds - Civic Cetner	306 Capital Facilities Fund	350 Real Estate Excise Tax 1
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	633	0	0	0
30880	Beg Fund Bal-Unreserved	0	0	927,138	75,061
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	125,113
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	250	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	6,466	13,163	19,423	1,827
Total Operating Revenues:		6,716	13,163	19,423	126,940
Operating Expenditures					
510	General Government	0	4,746	25,636	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	5,976	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		5,976	4,746	25,636	
Net Operating Increase (Decrease):		740	8,417	-6,213	126,940
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	10,680,000	0	0
397	Transfers-In	0	0	550,346	0
Total Nonoperating Revenues:			10,680,000	550,346	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	137,195	0	0
591-593	Debt Service	0	103,588	0	0
594-595	Capital Expenditures	0	0	914,610	0
597	Transfers-Out	0	0	0	75,000
Total Nonoperating Expenditures:			240,783	914,610	75,000
Increase (Decrease) in Cash and Investments		740	10,447,634	-370,477	51,940
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,373	10,447,633	0	0
50880	End Fund Balance-Unreserved	0	0	556,660	127,001

The accompanying notes are an integral part of this Statement.

BARS Code		401 Water	402 Sewer	701 Haller Park Fund
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	0	356,869	36,384
30880	Beg Fund Bal-Unreserved	4,786,411	5,033,871	0
38800/58800	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	0	0	0
320	Licenses & Permits	0	0	0
330	Intergovernmental Revenues	0	403,049	0
340	Charges for Goods and Services	1,753,597	3,431,886	0
350	Fines & Penalties	0	0	0
360	Miscellaneous Revenues	86,535	102,748	675
Total Operating Revenues:		1,840,132	3,937,683	675
Operating Expenditures				
510	General Government	0	0	0
520	Public Safety	0	0	0
530	Utilities	1,366,372	2,825,482	0
540	Transportation	0	0	0
550	Natural and Economic Environment	0	0	0
560	Social Services	0	0	0
570	Culture And Recreation	0	0	0
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		1,366,372	2,825,482	
Net Operating Increase (Decrease):		473,760	1,112,201	675
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	192,929	267,167	0
391-393	Debt Proceeds	0	9,675	0
397	Transfers-In	0	400,000	0
Total Nonoperating Revenues:		192,929	676,842	
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	32,206	42,627	0
591-593	Debt Service	0	629,894	0
594-595	Capital Expenditures	212,073	583,640	0
597	Transfers-Out	656,121	411,663	0
Total Nonoperating Expenditures:		900,400	1,667,824	
Increase (Decrease) in Cash and Investments		-233,711	121,219	675
Ending Cash and Investments				
50810	End Fund Bal-Reserved	0	356,869	37,059
50880	End Fund Balance-Unreserved	4,552,696	5,155,087	0

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	621 Police Expendable Trust	631 Construction Deposits	635 Intergovernmental Agency Fund
308	Beginning Cash and Investments	317,716	8,520	16,218	1,426
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	540,479	0	0	0
380-390	Other Increases and Financing Sources	221,970	6,340	22,854	75,610
510-570	Expenditures	585,678	0	0	0
580-590	Other Decreases and Financing Uses	139,596	6,340	39,072	73,758
Increase (Decrease) in Cash and Investments		37,175	0	-16,218	1,852
508	Ending Cash and Investments	354,891	8,520	0	3,278

BARS Code		645 Utility Deposits	690 TBD Entity
308	Beginning Cash and Investments	0	291,552
388 and 588	Prior Period Adjustments, net	0	0
310-360	Revenues	0	540,479
380-390	Other Increases and Financing Sources	117,166	0
510-570	Expenditures	0	585,678
580-590	Other Decreases and Financing Uses	20,426	0
Increase (Decrease) in Cash and Investments		96,740	-45,199
508	Ending Cash and Investments	96,740	246,353

The accompanying notes are an integral part of this Statement.

CITY OF SEQUIM

NOTES TO FINANCIAL STATEMENTS 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sequim reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting Systems* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

REPORTING ENTITY

The City of Sequim was incorporated in 1913 and operates under the laws of the State of Washington applicable to a Non-charter Code City with a Council-Manager form of government. The City is a general purpose government and provides public safety, water supply, water treatment and distribution, sewage collection and tertiary class-A treatment/ reclamation, street maintenance, comprehensive planning/zoning, building permitting/inspection, parks and administrative services. The City uses cash basis accounting, which is a departure from Generally Accepted Accounting Principles (GAAP).

A. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for revenues that are legally restricted or designated to finance particular activities of the City.

Capital Projects Funds

These funds account for financial resources, which are designated for the acquisition or construction of general government capital improvements.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others.

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Agency Funds

These funds are used to account assets that the City holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

In accordance with state law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City adopts annual appropriated budgets for all funds at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures (excluding eliminating entries prepared for reporting purposes on statements C-4 & C-5 and schedule 01) for the legally adopted budgets were as follow:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
001 General Fund (includes 101-U Streets, 107/117 Stormwater and 164 Equipment)	\$9,544,445	\$9,372,970	\$171,475
111 Streets Restricted	3,403,698	1,647,877	1,755,820
115 Lodging Tax	357,964	287,729	70,235
120 Criminal Justice	261,751	203,322	58,429
121 Police Asset Seizure	20,000		20,000
140 Parks Restricted	291,571	183,765	107,806
150/350 Real Estate Excise Tax	181,500	115,000	66,500
160 Gifting and Donations	7,150	5,976	1,174
300 LTGO Proceeds	250,000	245,530	4,470
306 Capital Facilities	1,401,292	940,246	461,046
401 Water	5,079,884	2,567,853	2,512,031
402 Sewer	7,492,152	5,463,697	2,028,456
621 Police Expendable Trust	20,000	6,340	13,660
631 Construction Deposits	325,000	39,072	285,928
635 Agency	175,566	73,759	101,807
645 Utility Deposits	100,000	20,426	79,574
701 Haller Park			
Sequim TBD Component Unit	651,560	585,678	65,882
Totals	\$29,563,534	\$21,759,240	\$7,804,294

The general fund (001), Street-Unrestricted (101-u), Storm Water Operations (107), Project Storm Water (117) the Equipment Fund (164) budgets were approved as separate funds but are shown consolidated for the purposes of reconciling to other schedules. The water and sewer unrestricted and restricted fund budgets were also approved separately but are “rolled-up” to their respective enterprise fund for the purpose of reconciling to other schedules, as well. Also, as a result of BARS clarifications, REET1 activities are now being classified as Capital Fund activities in the financial statements although they were combined in Fund 150 REET for budget purposes. Finally, a conversion of our accounting system required the City to renumber the Streets Restricted Fund from 101R to 111.

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City’s legislative body.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is pro-rated to the various funds.

E. Deposits

The City's deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments

See Note 3 and Schedule 11.

G. Capital Assets

Capital assets are long lived items that cost over \$7,500, and are recorded as expenditures when purchased.

H. Compensated Absences

Vacation time accumulates depending on time worked and seniority. Accruals vary depending upon whether or not the employee is represented by a bargaining unit. Employees represented by a union will accrue vacation at the following rates:

Years of Service	Accrual
Year 1	1 week
Year 2-4	2 weeks
Year 5-9	3 weeks
Year 10-15	4 weeks
Year 16+	5 weeks

Effective July 1, 2012, non-represented employees accrue vacation at the following rates:

	Years of Service	Admin Support (non-exempt)	Manager 1-3 (exempt)	Director (exempt)
Level 1	Year 1	2 weeks	2.5 weeks	4 weeks
Level 2	Year 2-5	2 weeks	3.5 weeks	4 weeks
Level 3	Year 6-10	3 weeks	4 weeks	5 weeks
Level 4	Year 11+	4 weeks	5 weeks	6 weeks

The City payroll system utilizes pooled time off (PTO) and it accrues for every employee (except seasonal employees). For non-exempt positions, this consists of accrued vacation, annual holiday floater, comp-time and/or overtime earned. For exempt positions, it consists of accrued vacation and an annual holiday floater. Salaried employees are not eligible to earn comp-time.

Non-represented employees may accrue vacation up to a maximum of 1.5 times their annual accrual amount shown above. Any vacation over the maximum on January 1 each year will be lost unless the City Manager elects to buy back the vacation leave time. For union employees the maximum total accrued hours in the PTO bank is three hundred, sixty (360) hours. Upon separation or retirement, employees do receive payment for unused vacation at a rate of 100%.

A full time employee typically accrues sick time at a rate of 8 hours per month. Represented employees may accrue sick leave up to 1,440 hours. Upon separation or retirement these employees receive payment for unused sick leave at a rate of 50%. Non-represented employees may accrue up to any amount. Upon separation, non-represented employees hired before July 1, 2012 will be paid 50% of their accrued sick leave balance at June 30, 2012 at the employees June 30th hourly wage. Accrued sick leave is not eligible for payout at employment separation for non-represented employees hired on or after July 2012.

Compensated absences as of December 31, 2013 totaled \$763,002, which increased from the prior year by \$47,340, as more vacation and sick leave accrued than was used.

I. Debt Service Requirements See Note 6 and Schedule 9

J. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of Transfers In and Transfers Out of various funds, Interfund Loans, Proceeds from the sale of assets, and, in 2013, Proceeds and Costs associated with a new Long-Term General Obligations to assist in financing a new City Hall and Police Station.

K. Risk Management

The City of Sequim is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2013, 91 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the

property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

L. Reserved Fund Balance

Effective for 2010 ending fund balances, the State Auditor's Office requires cash basis entities to classify fund balances as either reserved or unreserved. Reserved balances are the amounts of cash and investments not available due to the restrictions imposed on them by external parties (e.g., grantors, creditors, etc) and/or due to internal commitments. Internally committed resources are those with limitations imposed by the highest level of government (e.g., city council) through a formal action (e.g., ordinance and resolution).

The City's ending fund balance of \$24,915,762 consists of \$11,282,750 in reserved and \$13,633,012 in unreserved funds. Our restricted fund balances include: Streets Restricted (111) where funds are committed through settlement agreements or dedicated to SEPA mitigation for very specific transportation improvements, Police Restricted (120) where donation money is committed by policy to very specific programs like K-9 replacement, project lifesaver and car seats, Gifts and Donations (160) for the same reason, Bond Proceeds (300) by bond covenants for the Civic Center project, and Sewer Debt Service

(402) by State Revolving Fund loan agreements that stipulate reserve requirements equal to the amount of the annual payment. Additionally, the City reports reserved fund balances totaling \$354,891 in its Fiduciary Funds.

See below for details:

Streets Restricted (111)	<u>Reserved \$</u>
<i>SEPA Mitigation and Latecomer Funds</i>	\$142,676
<i>Settlements</i>	<u>235,532</u>
	378,208
Police Restricted (120)	
<i>Car Seats Donations</i>	2,146
<i>K-9 Program Donations</i>	17,773
<i>Project Lifesaver Donations</i>	40,132
<i>World Trade Center Memorial Donations</i>	<u>1,557</u>
	61,608
Gifts and Donations (160)	1,373
LTGO Bond Proceeds (300) for Civic Center	10,447,633
Sewer (402) debt service for SRF Loan	356,869
Haller Park Trust Fund (701)	<u>37,059</u>
	\$11,282,750

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City of Sequim.

NOTE 3 – CASH & INVESTMENTS

The City now maintains three investment accounts with US Bank. These investments are comprised primarily of US government and agency securities, and municipal bonds. All of these investments are uninsured but held in Book Entry Form at the Cleveland Federal Reserve in the name of US bank in their fiduciary capacity for the benefit of the City and therefore not part of the bank's balance sheet, totally protected from bank creditors.

In 2013, the City received \$10,680,000 (gross of issuance costs and discounts) from a long-term general obligation issued to assist in financing a new City Hall and Police Station. All of these funds were receipted into a new Debt Service Fund (300) and deposited in their own investment account, managed by SNW, LLC.

Investments are presented at their tax cost basis, as of December 31, 2013.

Cash and investments by type at December 31, 2013 are as follows, including the component unit:

Type of Investment	City's Own Investments	Trust and Agency Funds	Total
Cash	1,278,460	332,979	1,611,439
Other Bank Held	383,279	355	383,634
L.G.I.P	2,484,001	2,303	2,486,304
US Government Securities	15,261,979	14,148	15,276,127
Municipal Securities	5,508,042	5,106	5,513,148
Total	24,915,761	354,891	25,270,652

NOTE 4 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The city's regular levy for the year 2013 was \$1.626055 per \$1,000 based on a 2012 assessed valuation of \$826,359,277 for a total regular levy of \$1,343,705. In 2013, the City Council approved the allowable 1% increase in property taxes for 2014.

NOTE 5 – INTER-FUND LOANS AND ADVANCES

There were no inter-fund loans in 2013.

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides a listing of the outstanding debt of the City as of December 31, 2013. The debt service requirements, including interest, are as follows:

Year	*General Obligation Debt Payment		**Other Debt Payments		Total Debt Payments	
	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment
2014	74,888	569,257	526,796	103,098	601,684	672,355
2015	302,875	438,484	532,177	97,718	835,052	536,201
2016	280,243	433,127	537,672	92,223	817,915	525,350
2017	230,000	428,590	543,283	86,611	773,283	515,201
2018	235,000	423,875	412,501	80,881	647,501	504,756
2019-2023	1,275,000	2,009,725	1,470,240	314,106	2,745,240	2,323,831
2024-2028	1,510,000	1,776,675	1,632,861	151,485	3,142,861	1,928,160
2029-2033	1,840,000	1,503,425	524,208	11,095	2,364,208	1,514,520
2034-2038	2,280,000	1,206,500			2,280,000	1,206,500
2039-2043	2,860,000	679,250			2,860,000	679,250
Total	10,888,006	9,468,907	6,179,739	937,217	17,067,745	10,406,124

*As of December 31, 2013 there was \$763,002 in outstanding compensated absences that represent an unfunded liability with no scheduled payments, as this is based on attrition. Therefore, General Obligation debt payments above do not include such future obligations for compensated absences. Additionally, the City received \$10,680,000 in Long Term General Obligation Bond proceeds (gross of issuance costs and discount) in August 2013. These proceeds will be used specifically to finance a new City Hall and Police Station. Interest only payments begin on this debt in 2014.

**As of December 31, 2013 there was \$9,675 due to the Public Works Trust Fund for a reclaimed water facility project. The terms of this loan are only finalized when the project is completed. As such, no principal or interest payments are included in the above schedule.

NOTE 7 – PENSION PLANS

Substantially all of the City's full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

During 2007, the City employees in the Non-uniformed bargaining unit chose to participate in the Western Conference of Teamsters Pension Plan. This plan is fully funded by employee contributions. More information is available at the Plan's web site at www.wctpension.org.

NOTE 8 – Inter-local Agreements

The City has several inter-local agreements with nearby cities, Clallam County, the local fire district, the local school district, Clallam County Transit, and other government agencies.

During 2013, the following new inter-local agreements were signed or in effect:

Parties	Services
Association of Washington Cities	Risk Management and Employee Benefit Trust Health Care Program
City of Forks	Jail Services
City of Port Angeles	Purchasing Interlocal Agreement
City of Port Angeles	Solid Waste Disposal
City of Port Angeles	City Attorney Services
City of Port Angeles, Clallam Transit and Clallam County	Resource Conservation Management
Clallam County	District Court Filing Fees
Clallam County	Economic Development Council
Clallam County	SERP and Design Standards in UGA
Clallam County	Elections – Ballot Collection
Clallam County	Interlocal Regarding Comp Solid Waste Management Plan
Clallam County	STP Funds Allocation
Clallam County	Public Utilities Franchise re lines
Clallam County	Septage Treatment
Clallam County	Clean Water District MOA
Clallam County	Prisoner Confinement Services
Clallam County	Sex Offender Address and Residency Verification Program
Clallam County	Electronic Home Monitoring Services
Clallam County	Road Work Agreement
Clallam County	Use of Mower
Clallam County	Operation Stonegarden Project
Clallam County	OPSCAN Network Services
Clallam Conservation District	Low Impact Development Project
Clallam County, City of Forks and Port Angeles	Multi-Agency Reciprocal Maintenance Agreement, Distribution of SHB 2060 Funds
Clallam County, et al	Kenmore Air Grant
Clallam County PUD #1	Water Service Area Agreement – Highlands, Street light Agreement, Power Line Extension Agreement
Clallam County Sheriff	Use of Sequim Police Department
Clallam County Sheriff and Fire District #3	Fire Investigation Task Force
Clallam Transit	Commercial Lease Agreement, Maintenance and Install Bus Stops, Sale of Bus Passes
Clallam/Jefferson Public Defenders	Indigent Case Defense
Fire District #3	Fire Inspections, Fire and Emergency Medical Protection, Burning Permit Process, Confined Space Equipment
Sequim School District	School Resource Officer

Sequim Transportation Benefit District	Purchase/Fund Transportation Improvements
Olympic Peninsula Narcotics Enforcement Team (OPNET)	Distribution Agreement, Criminal Investigations and Prosecutions
Washington	
PENCOM – City of Port Angeles	Dispatch and Computer Records Services
Washington State Department of Ecology	Water Reclamation & Distribution Expansion
Washington State Department of Enterprise Services	State Purchasing Contract
Washington State Department of Licensing	Master Business Licensing Services
Washington State Department of Revenue	Sales and Use Tax Agreement
Washington State Department of Transportation	Adopt-A-Hwy, Maint and Ops of Signal Systems, 5 th & Hendrickson Signal Maintenance, Overhead Reciprocating Agreement, LOU for Local Agency Guidelines, Trail Lease – ODT, STP Funds W Sequim Bay Road
Washington State Department of Natural Resources	Aquatic Lands Outfall Easement and Insurance
Washington State General Services Administration	State Purchasing
Washington State Patrol	Live-Scan Fingerprint ID System, 24 Hour Hit Confirmation, Use of ASPEN Software, Academy Facility Use
Washington State Department of Corrections	Shared Office Space

Details of these and all prior active agreements can be found on the City's web-site, www.sequimwa.gov.

NOTE 9 - POST RETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

The City of Sequim provides post retirement health care benefits and prescriptions payments in accordance with LEOFF I Rules for one retired police officer. This individual is currently employed full time by another agency and receives health and prescription benefits with his position.

The City pays a Medicare Supplement insurance premium and a Long Term Care insurance premium to limit the exposure of medical costs. The City is responsible for co-payments and other out of pocket expenses approved by the Clallam County Disability Board.

Employer contributions are financed on a pay-as-you go basis. Expenditures for post employment health care benefits are recognized as retirees report claims and do not include a provision for estimated claims incurred but not yet reported to the city.

During the year, expenditures of \$9,006 were paid out for post retirement health care.

NOTE 10 - OTHER DISCLOSURES

A. Sequim Transportation Benefit District

The Sequim City Council created the Sequim Transportation Benefit District (reported as a blended component unit) by Ordinance as a quasi-municipal corporation, an independent taxing district, on July 14, 2008. The District was created under the authority provided by RCW 35.21.

The District is a governmental special- purpose entity governed by a Board of Directors, created for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District. The seven member board is composed of the seven members of the Sequim City Council.

Ballot measures were proposed and approved in November 2009 to authorize a sales and use tax of two-tenth's of one percent (0.2%) to be collected within the TBD, effective April 1, 2010. Collection of these revenues directly from the State started in 2010. An inter-local agreement obligates the TBD to transfer sales and use tax to the City to offset the City's expenses in performing capital projects and maintaining City streets. In 2013, the TBD transferred \$585,678 to the City for these purposes.

The boundaries of the District are identical with the City of Sequim limits. The District operates under the laws of the state of Washington applicable to a Transportation Benefit District. The TBD uses cash basis accounting which is a departure from generally accepted accounting principles (GAAP). More information about the Sequim TBD, including complete financial statements, can be obtained off of the City web-site at www.sequimwa.gov.

The district was added to the financial statements in 2012 as a blended component unit.

Capital Assets

The Sequim TBD has no capital assets. According to the Inter-local agreement between the Sequim TBD and the City, streets and related transportation infrastructure preserved and maintained with District funds are and shall remain the property of the City of Sequim. Any expenditure on a long-lived item that costs over \$7,500 becomes an asset of the City of Sequim. These items are recorded as expenditures when purchased.

B. Other Disclosures*New Funds*

In 2013 the following new funds were approved by ordinance by the City Council to account for new or changing activities of the City:

Fund	Description
107 Storm Water Operations	To account for Storm Water Operations, previously rolled up to the general fund, due to changes in funding sources. This fund is rolled up to the General Fund.
117 Project Storm Water	To account for a new/temporary Storm Water related project. This fund is rolled up to the General Fund.
300 LTGO Bond Proceeds	To account the 2013 receipt of \$10,680,000 in City Hall/Police Station bond proceeds and related costs.
645 Utility Deposits	To account for incoming and refunded utility deposits, required as a result of conversion to a new accounting system.

Accounting for State Unemployment Compensation

BARS requires all local governments to either participate in an unemployment pool/cooperative and expense charges as they occur or use an internal service fund to reserve for future unemployment claims, based upon experience. The City will establish a new Internal Service Fund in 2014 to account for these reserves.

It should be noted, however, that the City's Ending Fund Balance Policy specifically requires the City reserve for unemployment compensation within the ending fund balances for impacted funds. As of December 31, 2013, the City maintained adequate reserves for anticipated or estimated unemployment claims, based upon a four year history:

Fund	Amount of Required Reserves
General Fund and Streets	\$36,080
Sewer Operations	6,340
Total	\$42,650

Boards and Committees:

The City Manager and the Council have established numerous Citizens Boards and Committees to obtain public involvement. The council committees include the Civil Service Commission, the Planning Commission, the Board of Adjustment, the Citizens Park Advisory Board and the Lodging Tax Advisory Committee where membership can change annually. Other committees and task forces are created on a short-term and long-term basis to address current local issues. Members of Council and/or City Management staff have been attending the various meetings.

Public Safety Tax, effective January 1, 2013:

In August 2012, the citizens of Sequim voted to authorize a .1% Public Safety Tax effective January 1, 2013. Receipts for this new tax began in March 2013. This tax provides funding for a new Police Station. The current Police Station is a rented facility and does not meet current standards for police facilities and will never meet national accreditation standards. The City is building a new Civic Center which will house the Police Station and City Hall. The City Hall portion of the project will be funded separately through a combination of other funding sources.

Subsequent Events

The City intends to issue approximately \$3.205 million in water and sewer bonds in December 2014. The bonds are being issued for the purpose of financing that portion of the costs of design and construction of a new civic center (including consolidated office space) that is allocated to the City's water and sewer utilities and paying the costs of issuance and the sale of the bonds. The related future debt services of the combined utilities shall not exceed \$230,000. The total cost of the project is approximately \$16 million which will be paid from the proceeds of these Bonds, proceeds from the City's Limited Tax General Obligation Bonds and other available cash of the City.

City of Sequim

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	263.96	PD Hybrid Vehicle Lease to Purchase	12/1/2013	11,021	0	11,021	0
	263.61	Keeler Park Loan	12/1/2016	280,021	0	72,010	208,011
	251.11	Civic Center LTGO - Taxable	12/1/2017	0	680,000	0	680,000
	251.11	Civic Center LTGO - Nontaxable	12/1/2043	0	10,000,000	0	10,000,000
	259.11	Compensated Absences		715,662	47,340	0	763,002
Total General Obligations:				1,006,704	10,727,340	83,031	11,651,013
Revenue Obligations							
	263.82	PWTF Aerobic Digester Loan	6/24/2026	0	9,675	0	9,675
	263.82	Reclaimed Water Facility SFR Fund	3/1/2018	1,501,641	0	273,026	1,228,615
	263.82	Reclaimed Water Facility SFR Fund 2009	6/17/2030	5,199,625	0	248,502	4,951,123
Total Revenue Obligations:				6,701,266	9,675	521,528	6,189,414
Total Liabilities:				7,707,970	10,737,015	604,559	17,840,426

The accompanying notes to the financial statements are an integral part of this schedule

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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